



**REGULAR MEETING**  
**PUBLIC EMPLOYEES' RETIREMENT BOARD**

**May 10, 2007**

The regular meeting was called to order by President Elizabeth Nedrow at 8:30 a.m. Thursday, May 10, 2007. Roll call was taken with all members of the Board being present. Board members and staff present were:

Elizabeth Nedrow, President  
John Paull, Vice President  
Robert Griffith, Member  
Jay Klawon, Member  
Troy McGee, Member  
John Nielsen, Member  
Terry Smith, Member  
Roxanne Minnehan, Executive Director  
Melanie Symons, Legal Counsel  
Scott Miller, Legal Counsel  
Anna Garza, Executive Assistant

**OPEN MEETING**

Rick Ryan, Keith Simendinger, Chad Nicholson, Dan Cotrell, and Jack Trethewey, members of the Montana State Firemen's Association; Linda Zander and Don Kinman, AFSCME; and Marjorie Rowley, Benefits Specialist; Barb Quinn, Fiscal Services Bureau Chief; Kathy Samson, Defined Contributions Bureau Chief; Carolyn Miller, Administrative Officer; joined the meeting.

**MINUTES OF OPEN MEETING**

The minutes of the open meeting of April 12, 2007 were presented. Mr. John Paull pointed out a misspelling on page five of the minutes. Mr. Terry Smith moved that the minutes of the previous open meeting be approved with corrections. Mr. Robert Griffith seconded the motion. Upon being submitted to vote, the motion was carried with six members voting aye. Mr. John Nielsen abstained due to his absence from the April 12<sup>th</sup> meeting.

The Executive Director formally introduced the new Board member, John Nielsen, to the staff and other Board members.

**Public Comment** – Ms. Roxanne Minnehan announced to the Board that MPERA's Comprehensive Annual Financial Report (CAFR) for FY 2006 has won the Government Finance Officer's Association (GFOA) award for the ninth year in a row. Ms. Barbara Quinn and her staff

were responsible for putting the report together. All were congratulated for their efforts and achievements.

**EXECUTIVE DIRECTOR'S REPORT – Roxanne Minnehan, Executive Director**

**MPERB-Milliman Actuarial Services Contract Draft – Scott Miller**

As requested by the Board, Mr. Scott Miller drafted an addendum to the contract for Actuarial Services with Milliman Consultants and Actuaries for the next two years for the Board's approval. HB771 passed this session requiring annual actuarial valuations. The rate has increased from \$54,000 to \$65,000. Mr. Miller explained that the increase was due to the process becoming longer and more intricate. Mr. Jay Klawon made a motion that the addendum to the contract for actuarial services with Milliman extending the termination date to June 30, 2009, be approved and executed by the President of the Board. Mr. John Paull seconded the motion. When put to vote, the motion carried 7 to 0.

**MPERB-GWRS Administrative Recordkeeping Contract Draft – Melanie Symons**

Melanie Symons, Kathy Samson and Rob Virts have met several times with Great-West Retirement Services to discuss the terms of the contract based on the RFP. A final draft of Exhibit 1 of the 457 contract is included in the Board packet for the Board's approval. Ms. Symons referenced the memorandum in the Board's packets, noting the changes to previous language. She mentioned that the Exhibit for the 401(a) contract will be very similar to this Exhibit with the exception of a few changes. It will not include salary deferral agreements, but will include tracking of vesting and distribution of forfeitures. Mr. John Paull moved to accept the final draft of Exhibit 1 to the 457 Contract with Great-West Retirement Services. Mr. John Nielsen seconded the motion. When put to vote, the motion carried 7 to 0.

**EIAC Structure – Governor Approval of Appointments? – Melanie Symons**

The Department of Administration (DOA) is compiling information on all DOA advisory councils. They are stating that the Employee Investment Advisory Council (EIAC) should have been formulated by the Governor in accordance with 2-15-122, MCA. Ms. Symons and Kathy Samson met with the DOA Director's secretary and attorney. We believe that the EIAC was to be created by the Board, per 19-3-2133, MCA. The EIAC has been in existence since 1999, this is the first time that this issue has come up. Mr. Griffith mentioned possibly introducing it as legislation and having it decided one way or the other. Mr. McGee mentioned that because 19-3-2133 was established after 2-15-122 then the Board is the appointing authority. Mr. Robert Griffith motioned that the Board staff develop an amendment to 19-3-2133, MCA, clarifying that EIAC is not subject to 2-15-122, MCA, which should be included in the Board's 2009 general revisions bill. Mr. John Paull seconded the motion. When put to vote, the motion carried 6 to 1 with Mr. Troy McGee voting nay.

**Revenue Sharing – Kathy Samson/Roxanne Minnehan**

Per Terry Smith's request, information was put together on revenue sharing. Some of the information provided includes: the current structure for fee assessment, "lay-person" explanation of revenue sharing and 12 b-1 fees, a table with a listing of current investment options, indicating which options provide revenue sharing. The information also outlined some of the issues that the management team saw and provided staff recommendations. Staff wanted Board direction on whether they agree with staff recommendations or if the Board would like more time put into considering the issue further. Management feels that the current fee structure provides greater benefit to all members. Using the revenue sharing to offset the administrative costs and keep fees down is beneficial to the group and to the members, individually. Ms. Kathy Samson explained some of the funds and why they have revenue sharing fees and why others do not. Mr. Terry Smith stated that as the Board member who requested this information, he believes that it is extremely important that the Board fully understand the fee structure because this is one of the things that will impact future retirement funds and the amount of money that our participants are able to accumulate. He stated that approximately 30% of the total money within our plan is exposed to the revenue sharing fees and 70% is not. Mr. Smith feels that it would be in the Board's interest to set up a sub committee to look at this issue over the next 3, 6, 12 months to fully get the picture before the Board makes any recommendations or decisions on what their direction to the Staff should be. The Board President stated that she believes that the Board has been educated with the information that was included in the Board packets and that EIAC serves the role of watching the issues going forward. When participants choose their investment alternatives they are informed of the fees associated with that particular option. She agreed with the staff recommendation that Great-West be strongly encouraged to discuss fees when they are helping participants make investment choices. Ms. Nedrow suggested that the Board use their authority to encourage Great-West and EIAC to continue carrying the ball. The general Board consensus was to allow EIAC to proceed with review and recommendations. Ms. Samson mentioned that NAGDA conducts an annual investment survey and will present the survey to the EIAC for their review/information.

#### **Board Committees** – Elizabeth Nedrow

Ms. Nedrow appointed the following Board members to these Committees:

Personnel Committee – Decided to keep same members, Ms. Elizabeth Nedrow, Mr. John Paull and Mr. Jay Klawon, for the time being due to the ongoing Union negotiations.

Legislative Committee – Keeping the existing members: Mr. Robert Griffith, Mr. Troy McGee and Mr. John Paull.

Administrative Recordkeeping RFP Committee – Disbanded.

Joint Issues Committee – Mr. John Paull and Mr. Jay Klawon were appointed.

#### **Rule Approval – Adoption of Investment Policy Statements Rules** – Melanie Symons

This is the final process in adopting the Investment Policy Statements by Rule for both the 401(a) PERS-Defined Contribution Retirement Plan and the 457 Deferred Compensation Plan. Mr. Robert Griffith moved to approve the "Notice of Amendment" which adopts the recently revised 457 Plan and DC Plan Investment Policy Statements as administrative rules. Mr. Troy McGee seconded the motion. When submitted to vote, the motion carried 7 to 0.

### **Set Board Meeting Dates – 1<sup>st</sup> Quarter of FY 2008**

The Board meeting dates for the first quarter of the next fiscal year were kept at the second Thursday of the month. Mr. John Paull moved to set the monthly Board meeting dates for the third quarter in calendar year 2007 for Thursday, July 12, August 9, and September 13, 2007. Mr. John Nielsen seconded the motion. When put to vote, the motion carried 7 to 0.

### **VCP 125 Plan Agreement – IRS Response** – Melanie Symons

No information has been received from the IRS. We met again with Brand Boyar and representatives from the City of Bozeman and the City of Great Falls. Last month the Board denied Mr. Boyar's request for the release of the VCP submission. They will be asking for the Board to reconsider in June. We did an audit in Great Falls and are in the process of doing follow up. One of the biggest issues still remaining is the treatment of overtime. We had asked for these cities to respond and prove to us that they don't have to include these premiums for overtime purposes.

### **Personnel Committee Report** – Elizabeth Nedrow

The Committee has met twice since the last Board meeting. We had the formal negotiations with the Union. We don't have an agreement yet. How to allocate the 0.6% salary increase that the legislature passed continues to be one of the big issues. There will be another Committee meeting this afternoon with another formal negotiations process.

### **Budget Update – FY 2007, 3<sup>rd</sup> quarter** – Barb Quinn

Ms. Barb Quinn explained the excel spreadsheet included in the Board packet. The budget report is March 31, 2007, the 3<sup>rd</sup> quarter budget status report. At this point in time we should be about 75% expended on most items. Looked both at March 31<sup>st</sup> and when all bills were paid in April. Salaries are paid through March 16<sup>th</sup>, the pay day of March 28<sup>th</sup>, and looking at the later April version of it they were paid through March 30<sup>th</sup> the pay day of April 11<sup>th</sup>. There was \$23,000 of general overhead to yet be distributed. As of March 31<sup>st</sup> Personnel Services were 68.84% expended. As of all March bills being paid it was 70.07% expended. Other Services were 52.96% as of April 62.67%, Supplies and Materials went from 43.34% to 49.37%, Communications went from 30.55% to 32.81%, Travel 34.11% to 34.65%, Rent was at 37.92%, no change in April, Repairs and Maintenance were the same as they were last quarter at 22.91%, no change in April, Other Expenses went from 51.03% to 51.77%. The overall budget is 59.48% expended after all March bills it was 63.51%. Other Services/Insurance and Bonds, Communications/Messenger Services are paid up front and therefore are 100% expended. The DC Loan payment was paid off on May 8<sup>th</sup>. Other Services/Warrant Writing, Other Services/Payroll Service Fees, Other Services/DOA Personnel Unit Fees, Other Services/SABHRS Operation Costs, Other Services/Computer Processing, and Building Rent are all 75% expended. Some items that were highlighted were: under Other Services/Consulting and Professional Services, this is being closely monitored. For all plans are 36.36% expended, 52.33% through April 17<sup>th</sup>. Milliman is also being closely monitored. With legislation impacting the retirement systems, many actuarial studies have

been requested on the bills. Every study impacts our budget. Legal Fees need to be closely monitored. For all plans are 99.1% expended, 100.38% through April 17<sup>th</sup>. The DB-Contract with Goetz; we had budgeted \$25,000. It was said at the last budget review that we expected the budgeted amount will not be enough to cover Goetz's actual expenses. We have paid Goetz \$54,900 as of April 17<sup>th</sup>. The Computer Processing for all plans is 79% expended, 85.6% through April 17<sup>th</sup>. Under Supplies and Materials/Data Processing Supplies, for all plans were less than 82% expended, 82.43% as of April 17<sup>th</sup>. We had purchased some toner for a printer that is now out of service. We were able to re-sell two toner cartridges for \$100 each. Original cost was approximately \$280, which is not yet reflected in the budget. Under Travel, for all plans the total expended is 34.11%, 34.65% as of April 17<sup>th</sup>. Under Other Expenses/Recruiting, for all plans Other Expenses are 51% expended, 51.77% as of April 17<sup>th</sup>. For all plans Recruiting is 101% expended for the year, no change on April 17<sup>th</sup>. In summary, Defined Benefit (DB) totals; DB Expenses compared to the Cap. We budgeted \$165,000 under cap. Ms. Quinn then explained our budgetary cap to the new Board member. The projected year-to-date as of March 31<sup>st</sup> is \$725,000 under cap. The projected year-to-date as of April 17<sup>th</sup> is \$581,000 under cap. Under the DC the year-to-date line item for forfeitures is \$242,617. She also mentioned the cash balance at the end of the quarter. Due to HB 125 passing, we paid off the DC loan on May 8<sup>th</sup>. In FY 07 we paid \$65,319.79 in interest. We paid \$20,000 in principle. To date, the total interest paid on the loan is \$287,250 and \$137,805 in principle paid. The payment made because of HB 125 was \$1,375,015.

#### **Legislative Committee Report** – Robert Griffith/Staff

Mr. Griffith stated that there wasn't a lot to report, the legislative is back in session.

HB125, *Repay loan for startup costs of the defined contribution retirement plan*, was signed on April 28<sup>th</sup>.

HB131, *Generally revise public employee retirement laws*, the Governor's funding bill, Governor signed on May 3<sup>rd</sup>.

HB765, *Revise retirement laws*, Governor signed on April 27<sup>th</sup>.

We are getting ready to send out a newsletter to our members informing them of the legislation impacting the retirement system.

#### **Staffing Updates** – Roxanne Minnehan

Ms. Roxanne Minnehan reported on the following MPERA staffing:

- IT Programmer – Advertised in-house and received no applications. Posted externally and closes on May 23, 2007.
- Auditor – Posted in-house and received no applications. We posted externally and also did not receive any applications. Extended posting to close May 23<sup>rd</sup> as well.

#### **Board of Investments Update** – John Paull

They had a quarterly meeting Tuesday and Wednesday. Big issue is the money and how well the funds have been doing. For this past quarter the total pension assets grew by \$142 million,

including the Teachers. The best return was in the International Equities for the quarter was 3.2% return versus .7% for the Domestic stocks. For the past quarter Public Employees Retirement returned 2.17% beat the bench mark by 46 basis points, the rest of the systems were about in the same area. The Firefighters return was 2.15%, beat the bench mark by 44 basis points. For the year PERS has returned 11.95% from April 1, 2006 to March 31, 2007, beat the bench mark by 85 basis points. Firefighters retirement system was 11.93% return beat the bench mark by 83 basis points. PER Fund total assets are \$3.9 billion. Mr. Paull mentioned that RV Kuhns has reports available through the Board of Investments if anyone is interested. On Tuesday it was approved that they are going to liquidate the internally managed Domestic Equity portfolio, they are going to redeploy the staff that is currently working in that portfolio to other jobs, no one will be laid off. It was also approved by the Board to revise the asset allocation for Montana Domestic Equity Pool. Performance has been below the bench mark. The new allocation passive component proposed range is going to be 10 to 30%, with a target of 15% within the passive component, in the enhanced index component the target range allocation is for 27%, for value growth component the allocation is 28%, for the partial long and short it's going to be targeted at 15%. On the Real Estate Pool they have recently committed \$110 million to four new managers, which brings the total commitments up to \$369 million, at this time there is \$114 million in the fund the rest of the money is waiting to be deployed. In the Private Equity Pool they just recently signed four contracts with four new managers. By the end of the year 2010 they wanted to reach the targeted range of 9% of the retirement funds in the Montana Private Equity Pool. As of April 1<sup>st</sup> 44% in the Domestic Equity Pool, 19% in International Pool, Private Equity 6.9% for a total of 70.1%. In the Retirement Funds Bond pool 24.8%, in the Short Term Investment Pool 2.9%, Real Estate is up now to 1.5%, target range is 5% of retirement funds.

#### **Litigation Update** – Melanie Symons and Scott Miller

The most recent Motion for Summary Judgment in the Terry Teichrow case is set for hearing on May 24, 2007 at 11:00 a.m. Some of the briefs have been provided already. A reply brief will be filed May 17<sup>th</sup> that replies to the response brief that is in the Board packet. The Board will talk about affidavits supporting the Reply Brief during the Closed meeting.

#### **Future Board Meetings** – Thursday: June 14, 2007.

#### **EIAC Resignation Letter – Katharine R. Harris, Local Government Representative**

The Board was provided Katharine Harris' resignation letter in their Board packets. She had not been able to attend any of the EIAC meetings. Ms. Kathy Samson discussed that it is difficult to get local government representatives that are able to travel. They will be trying to recruit a local government representative.

#### **Montana State Fireman's Association Annual Convention – Lewistown, July 18-20**

The Board was provided with the invitation to the MT State Fireman's Association Annual Convention. The attending Fireman's Association members talked about the convention and the events that would be held along with the convention.

## **Informational Summary Reports**

Included in the Board packets were the following reports:

- Operational Summary Report
- Retirement Plan Transfers
- DCRP Asset Projections FY 2007
- DCRP Assets by Investment Option
- 457 Deferred Compensation Plan Assets by Investment Option

**The following portion of the meeting relates to matters of individual privacy. The Board President determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.**

## **SYNOPSIS OF THE CLOSED MEETING**

The minutes of the closed meeting of April 12, 2007 were presented. Mr. John Paull moved to approve the minutes of the April 12, 2007 meeting. Mr. Robert Griffith seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye. Mr. John Nielsen abstained due to his absence from the April 12, 2007 meeting.

## **Contested Cases**

### **Formal Consideration of Hearing Officer's Decision – PERS, Service Purchase, JKT**

*JKT* taught in some small school districts around Montana in the 70s and 80s, then quit teaching and currently is an employee in a PERS covered position. *JKT* wants to move TRS time into PERS. We allow only the number of months that the person was actually reported on payroll to be transferred, which is 9 months of the year. *JKT* contested our process. The Hearing Officer issued a proposed decision stating that our process is correct. *JKT* had 20 days to file exceptions, which expired on April 9, 2007. None were filed. Mr. Jay Klawon moved that the Board adopt the Proposed Decision for Motion on Summary Judgment issued by Hearing Examiner Thomas Bowe as its Final Order. Mr. Troy McGee seconded the motion. The motion carried 7 to 0.

### **Formal Consideration of Hearing Officer's Decision – HPORS, Disability Appeal, LH**

*LH* was found to be disabled by the Board in 1997. Upon review, the Board determined that he was no longer disabled for his position. *LH* contested that finding and asked for a contested case hearing. The Hearing Officer determined him to be disabled. Mr. Jay Klawon moved that the Board adopt the Proposed Findings of Fact, Conclusions of Law and Order of Hearing Examiner as its Final Order, authorize the President to sign the proposed Final Order, and reinstate *LH*'s disability benefit with annual review. Mr. Troy McGee seconded the motion. The motion carried 7 to 0.

## **Retirement Report**

- Disability Claims:

- DK has worked as a Road Grader Operator. Has been diagnosed with post cervical spine fusion, cervical spine stenosis and degenerative joint disease. The Disability Examiner does not feel that DK can safely operate heavy equipment with the current medical condition. DK's spine is not expected to improve over time; as a result the Disability Examiner does not feel that annual reviews are necessary. She recommends approval of disability without annual review. All 7 Board members agreed.
- DM has worked as a Recruitment Specialist. Has been diagnosed with meningiomas of the brain. The Disability Examiner believes that DM is unable to perform the essential functions of the position without modification. DM's prognosis is poor and not expected to improve; therefore, the Disability Examiner recommends approval of disability without annual review. All 7 Board members agreed.
- RM has worked as a Deputy Sheriff. Has been diagnosed with Tourette's syndrome or Myoclonus. The Disability Examiner believes that RM can no longer do police work, however is not able to establish a relationship between RM's fall at work on December 28, 2005 and the diagnosis of either Tourette's syndrome or a Myoclonus. The Disability Examiner recommends approval of non-duty related disability. All 7 Board members agreed.
- TR has worked as a Water Treatment Plant Operator. Has been diagnosed with pancreatitis, history of pulmonary embolism, chronic Coumadin usage, post rhabdomyosarcoma of the left at age fourteen, post hernia repair, fibromyalgia, Barrett's esophagus, chronic pain syndrome, spinal stenosis (age related narrowing of the spine), torn rotator cuff (shoulder). The Disability Examiner believes that TR is disabled from the position at the water treatment plant and recommends approve disability without annual review. All 7 Board members agreed.

Mr. John Paull moved to recommend approval of disability benefits without annual review for DK, DM, and TR, and approval of non-duty related disability benefits without annual review for RM. Mr. Jay Klawon seconded the motion. The motion carried 7 to 0.

- Finalized Service Retirements Disability Benefit Payments

Ms. Katie Linjatie presented the Board with the report. It was mentioned that a couple members were listed as members of the wrong retirement system. Mr. Robert Griffith made a motion to approve the finalized service retirements and disability benefit payments with corrections. The motion was seconded by Mr. John Paull. The motion carried 7 to 0.

### **Contested Case/Litigation Updates** – Melanie Symons

Mr. Scott Miller reported that they are continuing to review the Board and internal MPERA policies and rules.



Mr. Scott Miller reported on the Lodge Grass School District – We received the information. There are 260 people that have not been reported to PERS. Hopefully all 260 are reported correctly to TRS. The information is being reviewed by staff and TRS.

Ms. Melanie Symons reported on the MANG lawsuit – The District Court's opinion has been appealed by the Attorney General, but no brief has been filed.

Ms. Melanie Symons reported on the *SCW* contested case – There are three motions awaiting decision before the hearing examiner. Ms. Symons would like to request a hearing on the Motion for Summary Judgment.

Ms. Melanie Symons reported on the *TT* lawsuit – Ms. Symons explained the background of the lawsuit for the new Board member's benefit. It is now time for us to do a reply brief and to counter act some of the statements made in their brief regarding why *TT* wasn't hired.

## **ADJOURNMENT**

There being no other business before the Board, Mr. Terry Smith moved to adjourn the meeting. Mr. Jay Klawon seconded the motion. The motion passed with all seven votes. Ms. Elizabeth Nedrow adjourned the meeting at approximately 12:00 pm. The next meeting is scheduled for June 14, 2007, at 8:30 a.m. in Helena.